



WEEKLY ECONOMIC DIGEST

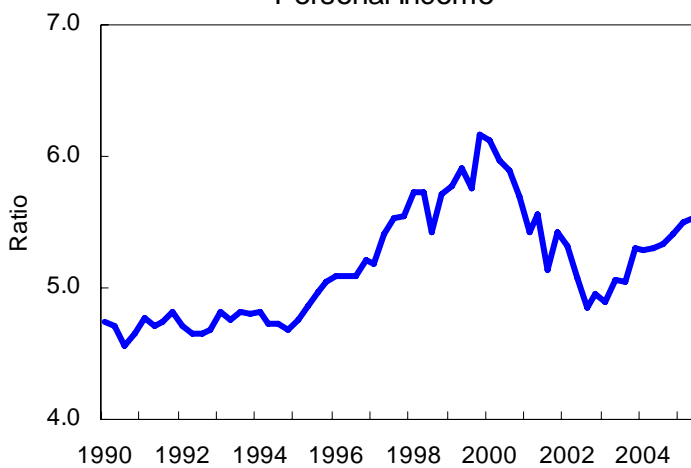


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

September 27, 2005

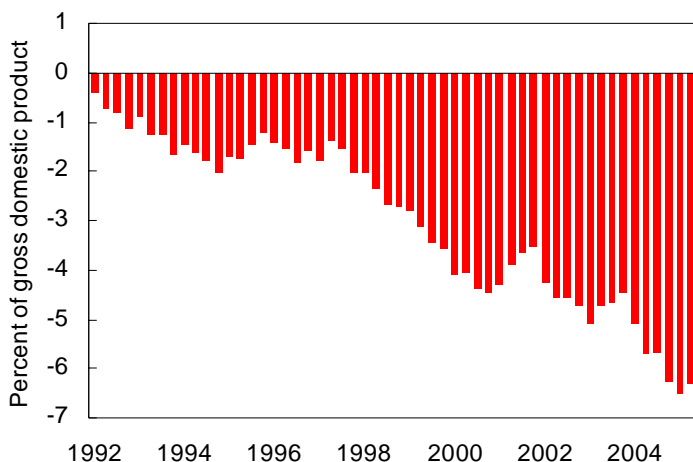
Energy Markets Absorbing Rita; Housing Strong; Trade Deficit Large

Ratio of Household Net Worth to Disposable Personal Income



Source: Board of Governors, Federal Reserve System and Bureau of Economic Analysis, U.S. Department of Commerce.

U.S. Current Account Balance



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

- **The impact of Rita is still being assessed.** Hurricane Rita destroyed coastal property and again submerged some neighborhoods in New Orleans struggling to recover from Katrina. Production of oil and gas in the Gulf of Mexico was completely shut down in anticipation of Rita, and the full measure of the storm's impact is still being assessed. Although production, refining, and distribution operations do not seem to have sustained as much damage as was initially feared, there is still uncertainty about how fast operations will be restored.
- **Housing starts slowed slightly last month, but sales and prices of existing homes kept rising.** New privately owned housing starts fell by 1.3 percent in August but the level of starts remained above 2 million units (annual rate) for the fifth consecutive month. Sales of existing homes rose by 2.0 percent last month, to 7.8 percent above last year's level. The median price of existing single family homes was \$220,000, 15.8 percent higher than a year ago.
- **Household wealth is growing faster than income.** The net worth of households grew 7.9 percent at an annual rate in the second quarter, 2.6 percentage points faster than the 5.3 percent growth in personal disposable income. As a result, the ratio of net worth to income rose for the fifth consecutive quarter (see top chart). The rise in wealth was spurred by rising real estate values—real estate accounted for more than 40 percent of net worth, an all-time high.
- **The current-account deficit remained near its record level in the second quarter.** The U.S. current-account deficit, which combines the balance on trade in goods and services with the balance on international income flows, decreased by \$3 billion to \$195.7 billion in the second quarter. At 6.3 percent of gross domestic product, the deficit was just a shade below the record of 6.5 percent set in the first quarter (see bottom chart).

The Economy at a Glance	Aug	Jul	Jun	May	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004	2003
Economic Activity										
Real GDP (% growth)*	—	—	—	—	3.3	3.8	3.3	4.0	4.2	2.7
Industrial Production (% growth)	1.2	1.2	10.0	3.7	1.5	3.6	4.5	2.7	4.2	0
Capacity Utilization (level, %)	79.8	79.8	79.8	79.2	79.4	79.3	78.8	78.2	78.1	75.5
Civilian Unemployment Rate (level, %)	4.9	5.0	5.0	5.1	5.1	5.3	5.4	5.5	5.5	6.0
Housing Starts (thousands)	2009	2035	2065	2041	2044	2083	1973	1974	1950	1854
Real Disposable Personal Income (% growth)*	n.a.	0	6.4	2.1	2.0	1.0 [#]	4.3 [#]	2.8	3.1 [#]	2.4
Retail Sales (% growth)	-22.5	23.8	24.6	-3.9	10.8	6.0	9.9	7.0	7.3	4.3
Personal Saving Rate (level, %)*	n.a.	-0.6	0	0.5	0.3	0.5	1.2 [#]	1.2	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	6.2	6.2	0	-1.2	4.2	2.4	3.6	1.6	2.7	2.3
Core CPI-U Inflation (% growth)	1.2	1.2	1.2	1.2	2.0	2.6	2.3	1.7	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	2.4	3.2	4.1	3.9	4.0
Output per Hour (% growth)	—	—	—	—	1.8	3.2	2.5	1.3	3.4	3.8
Financial Markets										
T-bill Rate, 3-month (level, %)	3.44	3.22	2.97	2.84	2.86	2.54	2.01	1.49	1.37	1.01
T-note Rate, 10-years (level, %)	4.26	4.18	4.00	4.14	4.16	4.30	4.17	4.30	4.27	4.01
Federal Funds Rate (level, %)	3.50	3.26	3.04	3.00	2.94	2.47	1.95	1.43	1.35	1.13
Dow Jones Industrial Avg (index level)	10554	10545	10487	10377	10382	10648	10362	10130	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **New Residential Sales: August 2005** [Release: Tuesday, September 27]
- **Advance Report on Manufacturers' Shipments, Inventories, and Orders: August 2005** [Release: Wednesday, September 28]
- **Gross Domestic Product (Final) and Corporate Profits (Revised): Second Quarter 2005** [Release: Thursday, September 29]
- **Personal Income and Outlays: August 2005** [Release: Friday, September 30]
- **Construction Spending: August 2005** [Release: Monday, October 3]